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1 Online technology is radically transforming the way that we conduct business, and the health care system is now in the middle of the information revolution. While traffic to health information sites is growing, e-commerce entrepreneurs are now examining ways to alter the health services market--going beyond providing information and into creating full-service health benefits web sites.

2 These entrepreneurs are creating virtual preferred provider organizations (PPOs) or health maintenance organizations (HMOs), providing services from procuring health insurance to locating health care providers to administering claims. By delivering these services online, these companies can build large customer bases quickly and develop benefits offerings unique to the online environment.

3 "In this intensely competitive job market, employers know that they cannot drop or severely limit the benefits they provide," says Connie Rank-Smith, SPHR, vice president of human resources for Jewelers Mutual Insurance in Neenah, Wis. "So they are searching for ways to offer benefits more efficiently and at a lower cost to their employees. And the Internet is providing some interesting options here."

4 Rank-Smith, who also is a member of the Society for Human Resource Management's Compensation and Benefits Committee, says that last year she asked a vendor to submit a proposal to become an online third-party administrator for her company's health plan. Jewelers Mutual Insurance employs nearly 150 people and provides insurance policies for the jewelry industry.

5 "We're a fairly small employer but still are considering online options for health benefits administration, so that should tell you something," Rank-Smith says. "We didn't accept the vendor's proposal because it just wasn't a good fit then, but it is something that we will continue to consider, and we will most likely move toward online options in the near future."

6 Rank-Smith's firm will be among many shopping for health benefits online in the next few years. At the end of 1999, online business-to-business transactions related to health had barely cracked the $10 billion mark, yet industry analysts estimate these sales will reach nearly $170 billion by the beginning of 2003.

7 Currently the options for online health benefits are expanding at a rapid rate. Quantifying the growth is tough because new health-related sites pop up almost daily. But behind this rapid expansion are confused employers and HR professionals who are left wondering just how the online health benefits market is going to shake out.

8 Because of the sudden proliferation of health sites, "the Internet health field is due for a huge correction," says Efrem Sigel with Corporate Research Group in New Rochelle, N.Y., a research and publishing firm that tracks health care trends. Sigel says many of the health care content sites will begin to fail because they don't offer real, value-added services. Sites dealing in benefits may fare better.

Risks and Rates

9 One online health benefits firm that Sigel believes should survive the shakeout is a Minneapolis-based company called eBenX. Currently, eBenX caters to larger employers, with 3,000-plus employees, by getting rate quotes on health insurance for its clients.

10 By working with several hundred clients, eBenX has built a large

buying pool and a nationwide network for health insurance. Generally, eBenX can find low rates for health insurance. After employers buy health insurance through eBenX, their employees can enroll for the health benefits online. Customers include PepsiCo, Bell Atlantic and GTE.

1 Mark Tierney, chairman of eBenX, believes a fundamental shift in the way employers provide health benefits is under way and wants to position his company to lead this change. This fall, eBenX will roll out a "risk-adjusted health care contribution plan" available through the company's web site, Tierney says.

2 When insurers quote benefits prices to employers, the insurers usually base their bids on the numbers of employees and dependents covered. Larger employers generally can get better price breaks.

3 Tierney's risk-adjusted plan will be different. By using its database on participating employers, eBenX will calculate a risk factor for each employer based on workforce data such as types and expenses of claims. The risk factor will show just how much of an insurance risk the employer represents for the insurer. With a calculated risk factor, insurance providers can better adjust their pricing schedule to individual employers.

4 Insurance providers will submit bids to each employer based on the risk factor, not on the number of employees, according to Tierney. With this approach, a smaller employer with low risk factors might receive better rates than a large one with high risk factors.

5 The approach "actually provides some financial incentives for both the employer and insurance provider, which hasn't been done before," Tierney says.

6 "Virtual PPOs might offer employers some great discounts, but it ultimately comes down to who's taking the risk," Tierney says. "And in many cases these are self-funded plans, so the employer is assuming the risk. 7 ... Accounting for the risk factors and deciding who's going to assume that risk are the keys to providing health insurance on the web."

8 The fact that eBenX operates online makes its risk-adjusted model possible. By providing online health benefits to employers with nearly 600,000 employees, eBenX is developing a huge database that could include 1.5 million individuals by the end of this year, acccording to Tierney. Compiling benefits data online means that the databases of eBenX and similar service providers have much more current and complete information than data collected by more conventional and low-tech processes.

9 "Employers buy health insurance individually and usually negotiate with the provider directly. It's a fragmented system, and the result has been a lot of different health plans and pricing structures as negotiated by individual employers," Tierney says. "The fundamental change we are seeing now is being driven by the concept of an exchange among a group of employers and centralized purchasing through companies such as eBenX."

Supplementing Benefits

10 Smaller businesses don't have the number of employees or volume of claims to make online benefits administration cost-effective. In fact, most large online service providers cater to employers with 2,500-plus employees. However, the majority of employers in the United States have 500 or fewer employees. Small employers are a huge market that hasn't escaped the notice of online vendors.

11 "We started Ehanced.com because good benefits services just aren't available online to smaller employers," says Dennis Keith, president and CEO of Ehanced.com in Grove Village, Ill. "We decided to start Ehanced because I also run a small marketing firm and wanted to find some online health benefits, and quickly discovered there wasn't much available to smaller employers."

12 Keith says that his new business could be called a virtual discount PPO. Ehanced doesn't offer core health insurance services but is designed to supplement both employers' and individuals' health insurance policies.

Ehanced offers employers access to a national network of health-care providers including dentists, pharmacists and vision care providers. Employers can join online and enroll their employees in the Ehanced network. The network provides additional discounts of 10 percent to 20 percent on the bills remaining after the employee's core insurance has paid. For example, an employee might have a $50 bill for a prescription, with his employer-provided insurance paying $30. The employee is responsible for the remaining $20, but with the Ehanced supplemental

benefit, the employee would get a 20 percent discount on that $20.

"The supplement approach is an excellent option for smaller-sized employers," says Gary Kushner, president of Kushner and Co., a management and benefits consulting group located in Kalamazoo, Mich. "They can enhance employee benefits at a low cost, and that's a tremendous plus in this day and age when employees are demanding and expecting more from their employers.".

From Bricks to Clicks

Several established, bricks-and-mortar companies already in the benefits business also are moving online to provide complete health benefits services to employers, from selecting and purchasing health insurance to administering claims. For example, earlier this year, Aetna U.S. Healthcare launched EZLink, a nationwide, online benefits administration system.

"EZLink marks an important milestone on the path toward paperless benefits transactions for the businesses we serve," says Michael J. Cardillo, president of Aetna U.S. Healthcare in Blue Bell, Pa. "Our vision of the future includes a cybersystem that will allow employers, employees, doctors, hospitals and pharmacies to share personalized information at the click of a mouse."

Hewitt Associates, a benefits management consulting group in Lincolnshire, Ill., launched the online health services company Sageo in March. Originally, the company marketed its services as a way for employers to provide health benefits to retirees, with the eventual option of offering the services to all employees. The initial response from employers was so overwhelming that Sageo officials decided to scrap the phased implementation approach and offer the service to everyone--retirees and current employees alike.

Tom Beauregard, chief strategist for Rowayton, Conn.-based Sageo, predicts that by January 2001, Sageo will be providing full health care services online to more than 100 employers and will have a customer base of nearly 500,000 employees and retirees.

A Managed Care Backlash

The forces driving the rapid growth of online delivery for health benefits are speculation from investors and intense interest from employers and consumer groups looking to cure the woes of expensive health care.

When the 1990s began, health insurance providers touted managed care as the best way to tame out-of-control growth of health care costs. And managed care did work, up to a point.

For nearly seven years, cost increases for health care benefits remained closely aligned with inflation, rising 2 percent to 3 percent per year, in contrast with the late 1980s and early 1990s, when costs jumped 20 percent to 25 percent a year. But double-digit cost-increase projections for this year and next have led many employers to re-examine their health care options. Also, employee and consumer backlash against managed care is pressuring employers and health insurance providers to change the way they operate.

Tierney believes that consumer dissatisfaction with managed care plans is forcing employers to search for other health benefits options. Employers also are nervous about current legislative proposals that might let consumers sue health plans over denied coverage.

Such proposals may drive employers to give employees more options--and more responsibility--in choosing their own health benefits. "We're definitely moving toward defined contribution plans in health care," Tierney says.

Beauregard says he sees high demand for online delivery of defined-contribution health benefits. Health insurance providers must guarantee access to defined-contribution health benefits plans for those plans to work properly, he says, and the demand is compelling insurance providers to offer guaranteed access.

"We are currently expanding our customer care capacities to keep up with demand," Beauregard says. "And the demand and level of interest we have seen tells us that employers and employees alike were ready for a change."

Taking the Online Plunge

As employers consider online health benefits, they should be aware that, as Kushner puts it, technology can be very seductive. Before taking

the plunge, employers should make certain that the offered services are a good fit with their own company culture and health plans, Kushner advises.

"The technology is evolving so fast, and it will only get better with time," Kushner says. "The web is definitely the future for benefits administration, but not everyone is online yet. And employers need to keep that in mind."

The better online vendors, recognizing that not all employees are online, offer toll-free phone access to their services rather than relying solely on the web, Kushner says. Still, the evolving technology and ease of access are pushing companies into exercising their online options.

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SIC CODES: 6324 Hospital and medical service plans
PRODUCT/INDUSTRY NAMES: 6322000 (Health Insurance)
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